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Czech Republic

HRI Food Service Sector

Report

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Report Highlights:
The Czech Food Service Industry's yearly turnover surpasses US $1.7 billion. This is over a 30% increase in four years. European Union entry will result in greater disposable income for discretionary food purchases as well as a larger number of foreign visitors. Over 100 million tourists visit the Czech Republik each year! There are over 55,000 Hotel, Restaurant and Institution outlets catering to these tourists and the domestic market. Enclosed are U.S. products with the most opportunities for successful sales to the Czech Republic.

Includes PSD Changes: No
Includes Trade Matrix: No
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HRI FOOD SERVICE SECTOR REPORT

SECTION I. MARKET SUMMARY

- total food service market is $1.7 bill., and growing (increase by 25-30% in 1998-2001).

	Market value in bill. $			**Volume increase in %**
	1998	**2000**	**2001**	**1998 - 2001**
Food	0.7	0.9	0.9	35 %
Drinks and cigarettes	0.7	0.8	0.9	25 %
Total food service market	1.4	1.7	1.8	25 - 30 %

(Source: Incoma Research)

- There are over 55,000 HRI outlets in the Czech Republic, only 11% are institutions (schools, hospitals, cafeterias, army), the rest are commercial restaurants
- The middle and upper segments of hotels and restaurants are on the rise (by 45% between 1998 and 2001)
- Fast food chains have 77 outlets and are mainly in big cities and along the major highways
- Institutional outlets represent almost 30% of total sales, this segment is stabilized
- 50% of all restaurants are low category pubs which only serve limited food, they are mainly beer pubs

	Number of outlets	**Market value in mill.$ (sales)**			**Volume increase in %**
		1998	**2000**	**2001**	**1998 - 2001**
Institutional	10,750	452	468	452	3 %
Low Segment HR	27,000	374 (297 R, 77 H)	387 (310 R, 77 H)	355 (290 R, 65 H)	- 8 %
Middle Segment HR	6,500	310 (194 R, 116 H)	481 (293 R, 188 H)	565 (355 R, 210 H)	45%
Upper Segment HR	2,500	155 (90 R, 65 H)	216 (139 R, 77 H)	242 (145 R, 97 H)	45%
Other outlets (bars, clubs, movie theaters, etc.)	8,000	N/A	N/A	N/A	N/A

R= restaurants, H= hotels

Characteristics of HRI market:

- The first half of the 90s - quick development especially in the number of establishments
- The second half of the 90s - focus shifts more on higher quality
- The number of tourists in the CR is around 14 mil. and this trend is expected to continue
- Stimulating factors: increased purchasing power, lower VAT, (from 22% to 5% in 2001) less time for cooking and other factors resulted in more people eating out
- In the future, HRI will mostly grow in quality - higher purchasing power of the Czechs, after the EU accession there will be more foreigners traveling to the Czech Republic
- Share of expenditures in the HRI sector (as % from the whole FMCG market):

Czech Republic	17%
Germany	26%
EU	23%
U.S.	44%

Advantages	Challenges
The CR will be in the EU in 2004 and the purchasing power of people will gradually grow.	World events (Sept.11, SARS, war in Iraq) and floods in the CR in 2002 have decreased number of tourists; Prague as a ›conference city‹ dropped from 21st place to 24th.
New investments throughout the country create new demand in smaller cities and rural areas for mid to upper segment restaurant market.	Restaurants will be more expensive after the EU accession.
There is a 45% growth of the upper segment market, which has the highest share of imported products.	There is no wholesale chain supplying hotels and restaurants, to get products in this sector is more complicated.
Changing life style, eating habits (more people eating out).	Price competition of other countries (e.g. wine).
After the EU accession some products will have lower import duty (e.g. wine, distilled alcoholic beverages) and be cheaper.	Czech Republic is a relatively small market with population of 10 million, therefore direct imports from the U.S. to the HRI are almost non-existent.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

- Most food products served in hotels and restaurants are domestic
- Imported products include fresh produce, sea fish, alcoholic beverages, etc.
- The vast majority of imported food products is distributed through importers and local distributors. Only a very small percentage (around 5%) is imported directly by large expensive hotels
- Mid and low segment restaurants purchase food in cash and carry Makro
- Larger hotels and fast food restaurant chains buy directly from producers or importers

B. MARKET STRUCTURE

U.S. exporter

Czech importer

Catering companies Large hotels and restaurants

Cash & carry Makro

Local distributors

Fast food chains Institutions

Mid size and smaller hotels and restaurants

Value of Food Sales

Category	**Market value in mil. $**			**Volume increase in %**
	1998	**2000**	**2001**	**1998 - 2001**
Drinks, beverage and cigarettes	**714**	**857**	**893**	**25**
- non-alcoholic beverages	214	257	279	30
- beer, wine, spirits, cigarettes	500	600	614	22
Fresh, cooled and frozen food	**286**	**411**	**446**	**56**
- fruit and vegetables	36	43	54	50
- fresh meat	196	239	246	25
- fresh fish	4	7	11	30
- frozen food	54	86	89	65
Packed food	**357**	**361**	**364**	**2**
- canned and packaged food	304	293	293	-3
- sweets	54	68	71	33
Total	**1,429**	**1,714**	**1,786**	**25**

(Source: Incoma Research)

C. SUB-SECTOR PROFILES

1. Hotels

- Sales in the hotel sector are less than half of the restaurant sales
- Hotel sales are primarily in the high end market hotels of large cities, predominately by businessmen
- There are few hotel chains in the Czech Republic - some high end international chains (Marriott, Hilton, etc.) usually have 1 hotel in the country. Slightly cheaper chains (Holiday Inn, Best Western) have usually several hotel in the largest cities
- Most of Czech hotels are independent

Major Hotels

Hotel name	**Category**	**Location**	**Number of Rooms**	**Turnover FB in mil USD in 1999 (later data N/A)**
Hotel Intercontinental	*****	Prague	364	4,82
Renaissance	*****	Prague	314	2,75
Radisson SAS	*****	Prague	211	1,91
Marriott	*****	Prague	293	1,69
Grandhotel Pupp	*****	Karlovy Vary	225	2,11
Hotel Praha	*****	Prague	124	0,84
Savoy	*****	Prague	61	0,67
Hilton	****	Prague	788	9,79
Diplomat	****	Prague	400	2,50
Top Hotel Praha	****	Prague	1020	1,20
Interhotel Voronez	****	Brno	479	1,50
Hotel International Brno	****	Brno	262	1,03
Hotel Adria	****	Prague	88	0,72
Holiday Inn Brno	****	Brno	205	0,57

2. Restaurants

- There is a growth of international cuisine restaurants in the Czech Republic (Italian, Chinese, Indian, French, Thai, Japanese, Middle East, etc.) as people seek to experience new types of meals and atmosphere
- Most restaurants are independent and not part of any chain (except for fast food chains)
- Restaurants purchase food either directly fro m producers/importers or in cash and carry Supermarkets
- There is a growing demand for mid and upper end of the market restaurants, while the number of low segment pubs is declining

American Franchises

Name	Turnover in 2002 in million USD	Number of outlets	Purchasing agent
KFC/Pizza Hut	25	21+1	Directly from producers/importers
McDonald=s	64	70	Directly from producers/importers

3. Institutions

- Increasing market segment
- Organized and concentrated (up to 60% in terms of volume)
- Czech special characteristics "Warm meal at noon@ (in GB, US - main meal is dinner, in Poland people go home for lunch)
- Expected changes in financing of institutions (either centralization or integration into small chains)
- The most perspective segment: cafeterias at work places (stable clientele, fast return of investments)

Major Institutional Caterers

Name	Turnover in 2001 in million USD	Number of outlets	Purchasing agent
Eurest	55	300	Directly from producers/importers
Sodexho	25	160	Directly from producers/importers
GTH	8	36	Directly from producers/importers

SECTION III. COMPETITION

- About 20 - 25% of food products are imported, mainly from the EU
- The highest percentage of imported products are in the following product categories - fish and seafood, produce, nuts, dairy products, pastas and sauces, breakfast cereals, wines, and spirits
- Some dairy products, dried fruits, produce, spirits, etc. have lower tariffs from the EU than from other WTO countries
- The main advantage of domestic products is price (e.g. pastas) and in some cases exceptionally good quality (e.g. beer). The advantage of imported products is primarily the lack of domestic products (e.g. seafood, some produce) and a larger choice for the customer
- Meat may not be imported from the U.S. since veterinary certificates between the two countries have not been negotiated

Major Commodities and Competition Sources

Product Category (import 2002)	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Fish Import: 30,140 MT	1. China - 23% 2. Ireland - 15% 3.Netherlands - 10% USA - 5%	China exports cheap fish fillets. Ireland and Netherlands are transhipment countries for fish from North and South Americas.	CR is a land lock country and produces only freshwater fish. All sea fish and seafood is imported.
Dairy Products Import: 131,787 MT	1. Slovakia - 47% 2. Germany - 27% 3. Poland - 15% USA - close to 0%	Dairy products are imported from the neighboring countries; these products usually have a short shelf life.	CR is a producer of milk and dairy products. This commodity is supported through the State Agricultural Intervention Fund.
Vegetables Import: 382,190 MT	1. Spain - 20% 2. Slovakia - 16% 3. Netherlands - 12% USA - 0.1%	Spain and Netherlands produce affordable high quality vegetables. Slovakia has a price advantage.	CR produces only seasonable vegetables.
Fruit and nuts Import: 482,383 MT	1. Spain - 18% 2. Italy - 15% 3. Hungary - 10% USA - 1%	Spain and Italy, due to their location in southern Europe supply high quality fruit. The U.S. is a major supplier of almonds, raisins and prunes.	CR produces fruit and nuts grown in its climatic zone (e.g. apples, walnuts, etc.)
Fats and oils Import: 168,285 MT	1. Germany - 40% 2. Slovakia - 21% 3. Indonesia - 8% USA - 0.2%	Germany is an exporter of vegetable oils (rapeseed, sunflower), while the US supplies soya oil.	CR produces rapeseed oil; other oils are imported.
Sugar and confectionary Import: 119,203 MT	1. Slovakia - 38% 2. Germany - 25% 3. Poland - 14% USA - 2%	U.S. company ADM produces fructose syrup in Slovakia (also exported to the CR). Germany and Poland have	CR has closed down 40 out of 52 sugar refineries in the past ten years. After the EU accession prices of sugar in the CR

		advantage of being neighboring countries.	will grow.
Beverages Import: 318,958 MT	1. Slovakia - 23% 2. Germany - 22% 3. Austria - 11% 4. Italy - 11% USA - 0.6%	Slovakia exports fruit juices; Germany mainly fruit juices and soft drinks; Austria fruit juices; Italy wine. The U.S. exports distilled liqueurs and wine.	CR produces 18 mil. hectoliters of beer (little beer is imported); 67,000 MT of wine (half of total wine consumption) and fruit juices.

SECTION IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market with Positive Sales Potential:

microwave popcorn
- there is no domestic or international competition
- U.S. brands: Jolly Time, Shop Rite

Tex-Mex products
< there is no domestic or international competition
- U.S. brands: Casa Fiesta, La Preferida, Ortega, Kroger

canned sweet corn
- international competition - French brand canned corn processed in Hungary (Bonduelle); there is no domestic competition since Czech corn is used for feed
- U.S. brands: Del Monte, Kroger

peanut butter
- there is limited international competition (Tesco house brand)
- U.S. brands: Kroger, Shop Rite

pancake syrup XXX -see below
- the only international competition is Canadian maple syrup sold at premium prices
- U.S. brand: Aunt Jemima

cake mixes (pancake, muffin, brownie mixes) XXX-see below
- domestic competition is quite strong here due to lower prices (Vitana)
- there are some international branded products, e.g. Dr. Oetker (Germany)
- U.S. brands: Aunt Jemima, Shop Rite

pasta and powdered sauce mixes
- strong domestic competition (Vitana) - similar quality for prices three times lower
- U.S. brand: Shop Rite

almonds, raisins and other dried fruits and nuts

- there is no domestic competition in these product categories
- most nuts and dried fruits are imported in bulk quantities and packaged in the country
- 85% of imported almonds are from California
- other nuts and dried fruits compete with products from Turkey, Philippines, Indonesia, China and some Latin American countries, which offer lower prices

wine

- the Czech Republic produces drinkable white wine at low prices
- international competition: French wine, Italian wine, Spanish wine
- cheaper wines are packaged in cardboard boxes

- U.S. wine market position - in retail chains there are several mid market brands of California wine (e.g. Wente, Almaden, Paul Masson, Estate Cellars, Western Cellars); hotels and restaurants sell higher end market wines

whiskey and bourbons

- there is no domestic competition and in case of bourbon not even international competition
- market share of American whiskey and bourbons has been going up in the last three years reaching 45% of the total whiskey market
- U.S. brands: Jim Beam, Jack Daniels, Four Roses, 7 Crown, Medleys, Wild Turkey, Makers Mark

XXX - these products have been delisted from some supermarket chains since they contain genetically modified organisms (GMOs) in soya lecithin and other components.
Czech importers require U.S. companies to certify that their products are GMO free, which they cannot usually do, so these types of products are basically out of this category

B. Products Not Present in Significant Quantities with Positive Sales Potential:

fish and seafood products

- The Czech traditional Christmas dish is carp and the most popular fish all year round is trout. Due to a wide range of fish (frozen, fresh and live) available in the modern retail chains, the consumption of seafood and seafish is on the rise
- U.S. fish companies compete with fish suppliers from other countries mainly on the bases of price: cheaper types of fish (e.g. Alaskan pollack) are imported from China, farmed salmon comes from Norway and live lobster from Canada
- if the U.S. suppliers can be price competitive there is a potential market

cheese and salsa nacho dips

- there is not a big variety of dips in the market
- U.S. salsa has no international or domestic competition and other dips are not available at all

frozen juice concentrates

- there is no domestic or international competition in frozen juice concentrates cranberry juice

- there is no domestic or international competition
- U.S. brand: Ocean Spray (imported as a finished product, therefore it=s quite expensive - the price is 5 times higher than the price of an orange or apple juice)
- potential for U.S. in cranberry juice concentrate

C. Products Not Present in Market Because of Significant Barriers

meat, meat products, and poultry

- cannot be imported due to lack of approved USDA/FSIS veterinary certificates

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Note: Sources of information: Czech Statistical Office, Incoma (market research company), newspaper and magazine articles, importers, retailers and wholesalers

SECTION V. POST CONTACT AND FURTHER INFORMATION

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